

1 July 2014

Bajaj Corp.

Unblemished growth; Buy

Key takeaways from management meet

Inventory correction to cause volume drop. Management indicated that inventory in the trade remains in the correction mode (from 45 days of sales in to 32 days by end of Mar'14). This is primarily owing to continued slowdown in rural as well as urban sales. As per management, volumes in rural areas may drop further due to delayed and deficient monsoon.

Price hikes to aid brand building activities. Prices of glass and light liquid paraffin (both key inputs), have increased 5% and ~8% respectively. Consequently, the company hiked prices by 5% in April 14. The management indicated that in case of any gross margin expansion, it will invest the savings into brand-building activities.

Re-structuring of 'No Marks' almost over. The company has restructured the portfolio of 'No Marks'. It has reduced the number of SKUs from 53 to 19, which will help reduce investment in its inventory. Also, it has appointed two new contract manufacturers which will streamline the supply chain. The company has also increased the distribution of No Marks from 167,000 outlets to 300,000 outlets; it intends to raise it further to 600,000 outlets by Mar 15. We expect the benefits of restructuring of No Marks to be visible in 2HFY15 and FY16.

Our take. Competition in almond-based hair oils is benign. Dabur's Almond Hair Oil has failed to gain more than 4% market share. Also, Keo Karpin is not investing in pushing its brands. This has led to Bajaj Corp. gaining market share. The market-share ratio of Bajaj Corp. to Keo Karpin has risen from 4.34 to 4.44. We expect 13% earnings CAGR for the company in FY14-16. We value the stock at target price of ₹270, at PE of 18x FY16e earnings. Also, we expect the success of Kailash Parbat and No Marks-acquisition to reduce dependence on Bajaj Almond Drops, erasing the 'single-product-company' tag.

Risks. Further increase in input rises and keener competition.

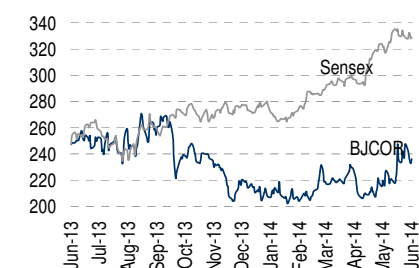
Key financials (YE Mar)	FY12	FY13	FY14e	FY15e	FY16e
Sales (₹m)	4,722	6,057	6,707	7,704	8,780
Net profit (₹m)	1,201	1,662	1,719	1,931	2,206
EPS (₹)	8.1	11.3	11.7	13.1	15.0
Growth (%)	21.2	38.4	3.5	12.3	14.2
PE (x)	28.6	20.7	20.0	17.8	15.6
PBV (x)	8.0	7.1	6.6	6.2	5.3
RoE (%)	29.8	36.4	34.3	35.9	36.8
RoCE (%)	28.0	36.7	36.0	38.3	39.1
Dividend yield (%)	1.9	3.0	3.0	3.3	3.5
Net gearing (%)	(79.2)	(76.9)	(55.0)	(60.9)	(62.1)

Source: Company, Anand Rathi Research

Key data	BJCOR IN / BACO.BO
52-week high / low	₹287 / ₹198
Sensex / Nifty	25414 / 7611
3-m average volume	US\$0.5m
Market cap	₹34bn / US\$573m
Shares outstanding	148m

Shareholding pattern (%)	Mar '14	Dec '13	Mar '13
Promoters	75.0	75.0	75.0
- of which, Pledged	0.0	0.0	0.0
Free Float	25.0	25.0	25.0
- Foreign Institutions	13.5	12.9	13.3
- Domestic Institutions	1.9	2.1	2.3
- Public	9.6	10.0	9.4

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net sales	4,722	6,057	6,707	7,704	8,780
Sales growth (%)	31.7	28.3	10.7	14.9	14.0
- Op. expenses	3,568	4,342	4,857	5,578	6,357
EBIDTA	1,154	1,715	1,849	2,126	2,423
EBITDA margins (%)	24.4	28.3	27.6	27.6	27.6
- Interest	1	1	59	-	-
- Depreciation	26	40	43	67	77
+ Other income	385	411	412	354	411
- Tax	311	424	440	483	551
Income tax rate	20.6	20.3	20.4	20.0	20.0
PAT	1,201	1,662	1,719	1,931	2,206
Extra Ordinary Items	-	-	(230.0)	(376.0)	(43.2)
Minority Interest	-	-	-	-	-
Consolidated PAT	1,201	1,662	1,489	1,555	2,163
FDEPS (₹/share)	8.1	11.3	11.7	13.1	15.0
FDEPS Growth	21.2	38.4	3.5	12.3	14.2

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	148	148	148	148	148
Reserves & surplus	4,131	4,678	5,045	5,402	6,282
Shareholders' fund	4,278	4,826	5,192	5,550	6,429
Minority interests	-	-	-	-	-
Debt	4	-	-	-	-
Def Tax Liability	10	15	4	4	4
Capital employed	4,292	4,840	5,196	5,553	6,433
Fixed assets	819	1,221	2,366	2,223	2,503
Investments	3,135	1,845	1,575	2,275	2,975
Of Which liquid	3,135	1,845	1,575	2,275	2,975
Working capital	64	(118)	(37)	(58)	(69)
Cash	275	1,892	1,292	1,114	1,025
Capital deployed	4,292	4,840	5,196	5,553	6,433
Net Debt	(3,405)	(3,737)	(2,867)	(3,389)	(4,000)
W C turn (%)	1.4	(1.9)	(0.5)	(0.8)	(0.8)
Book Value (₹/Sh)	29.1	32.8	35.2	37.7	43.6

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

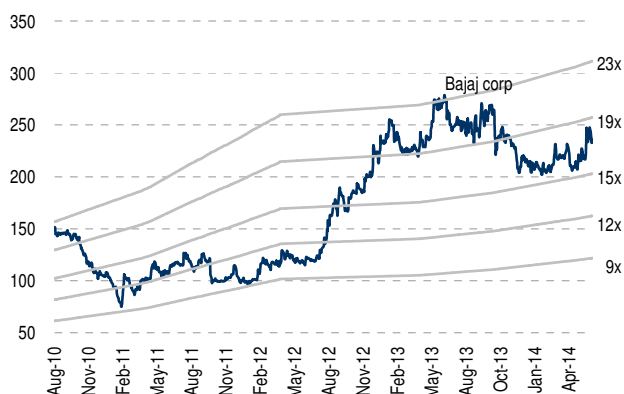
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Consolidated PAT	1,201	1,662	1,489	1,555	2,163
+ Depreciation	26	40	43	67	77
Cash profit	1,198	1,700	1,533	1,997	2,283
- Incr/(Decr) in WC	28	(157)	(81)	22	11
Operating cash flow	1,226	1,544	1,452	2,019	2,294
- Capex	(196)	1,188	(1,188)	(300)	(400)
Free cash flow	1,030	2,731	264	1,719	1,894
- Dividend	(1,013)	(1,114)	(1,133)	(1,198)	(1,283)
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Investments	(556)	-	270	(700)	(700)
- Misc. items	-	-	-	-	-
Net cash flow	(539)	1,617	(600)	(178)	(89)
+ Opening cash	813	275	1,892	1,292	1,114
Closing cash	275	1,892	1,292	1,114	1,025

Source: Company, Anand Rathi Research

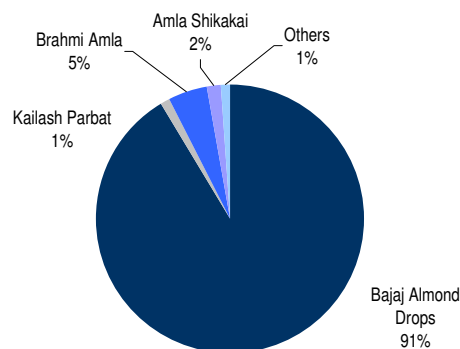
Fig 4 – Ratio analysis @ ₹233

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	28.6	20.7	20.0	17.8	15.6
P/B (x)	8.0	7.1	6.6	6.2	5.3
EV/Sales (x)	6.7	5.2	4.7	4.1	3.6
EV/EBITDA (x)	27.3	18.4	17.0	14.8	13.0
RoAE (%)	29.8	36.4	34.3	35.9	36.8
RoACE (%)	28.0	36.7	36.0	38.3	39.1
Dividend yield (%)	1.9	3.0	3.0	3.3	3.5
Dividend payout (%)	49.1	57.7	55.8	53.5	50.1
RM to sales (%)	46.6	42.5	40.1	40.0	40.0
Ad spend to sales (%)	22.5	22.8	25.8	25.8	25.8
EBITDA growth (%)	6.8	48.6	7.8	15.0	14.0
EPS growth (%)	21.2	38.4	3.5	12.3	14.2
PAT margin (%)	27.6	25.4	27.4	25.6	25.1
FCF /EPS (%)	85.8	164.4	15.3	89.0	85.9
OCF/Sales (%)	26.0	25.5	21.6	26.2	26.1

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Indicative revenue break-up (FY14)


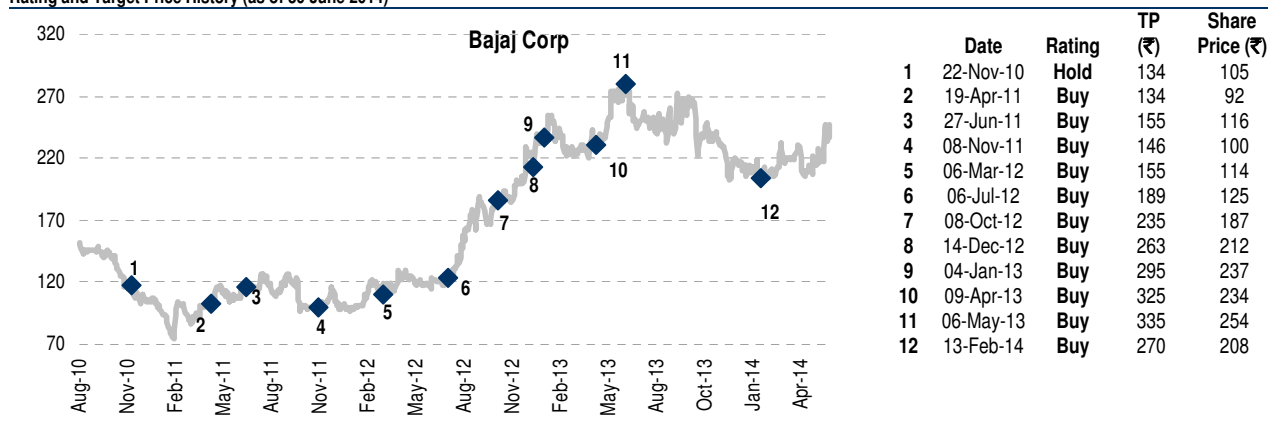
Source: Company

Appendix

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